STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-04-1

FINAL DECISION AND ORDER

(Issued January 14, 2005)

SYNOPSIS[1]

On January 14, 2005, the Utilities Board (Board) issued its final order in Interstate Power and Light Company's (IPL) electric rate case, Docket No. RPU-04-1. The Board approved a revenue requirement settlement which granted IPL an increase in electric revenues of about $8.2 million, or less than 1 percent, over the $98.2 million in temporary rates in effect since last summer. IPL had initially requested a $149.2 million increase, or 16 percent. A significant portion of the total increase is for new investment in electric generation.

The Board also approved a second settlement that allocated the final revenue increase among customer classes and class zones. Allocation of the increase moved rates closer together in IPL's four pricing zones. Finally, after reviewing various equalization plans submitted by each party, the Board set target dates for rate equalization to occur. For residential and general service (commercial) customer classes, the target is five years. For large general service (large commercial and industrial) and lighting customer classes, the target is three years. Because rate structures are not currently the same for all rate zones, IPL committed to filing a revenue-neutral customer reclassification and rate zone consolidation plan with the Board by June 30, 2005.

[1] The purpose of this synopsis is to provide readers a brief summary of the decision. While the synopsis reflects the order, it shall not be considered to limit, define, amend, or otherwise affect in any manner the body of the order including the findings of fact and conclusions of law.

APPEARANCES

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I. PROCEDURAL HISTORY

On March 15, 2004, Interstate Power and Light Company (IPL) filed proposed electric tariffs, identified as TF-04-79, TF-04-80, TF-04-81, and TF-04-82. In TF-04-79 and TF-04-80, IPL proposed a temporary increase that would produce additional electric revenues of approximately $105.6 million (on an annualized basis). In TF-04-81 and TF-04-82, IPL proposed a permanent annual increase of approximately $149.2 million, or 16.3 percent, over current Iowa electric revenues. On April 13, 2004, the Iowa Utilities Board (Board) suspended the proposed tariffs and docketed them for investigation in a proceeding identified as Docket No. RPU-04-1. A procedural schedule was also set.

IPL's filing continued the rate equalization process from IPL's prior rate case, Docket Nos. RPU-02-3 and RPU-02-8, by proposing a reduction in percentage differentials between pricing zones. IPL has four pricing zones because of the mergers of various individual utilities to form IPL. The pricing zones and four merged utilities that make up IPL are: IES-N (Iowa Electric Light and Power Company), IES-S (Iowa Southern Utilities Company), IPC (Interstate Power Company), and IES-SE (Union Electric). In Docket No. RPU-02-3, progress towards rate equalization was made. See, Interstate Power and Light Company, "Final Decision and Order," Docket Nos. RPU-02-3 and RPU-02-8 (4/15/03).

In addition to the Consumer Advocate Division of the Department of Justice (Consumer Advocate), there were numerous parties that were granted intervenor status. Intervenors were present from all four of IPL's pricing zones. The intervenors are: Community Coalition for Rate Fairness (CCRF), Deere & Company (Deere), Iowa Consumers Coalition (ICC), Lakeside Casino Resort (Lakeside), Swiss Valley Farm, Co. (Swiss Valley), Maytag Corporation (Maytag), Mason City-Area Employers Group (MCEG), Lee County Energy Users Group (LCEUG), and Wapello County Board of Supervisors (Wapello).

IPL's ratepayers had an opportunity to express their views to the Board regarding the proposed increases, both through written consumer comments and public comment hearings. The Board held ten consumer comment hearings throughout IPL's service territory and at least one hearing was held in each of IPL's four pricing zones. Hearings were held in Spirit Lake, Osceola, Dubuque, Fort Madison, Keokuk, Burlington, Ottumwa, Mason City, Marion, and Newton. The hearings were generally well attended and allowed the public an opportunity to address comments and concerns in person to the Board, IPL, and Consumer Advocate. Numerous written consumer comments from individual ratepayers were also received.

On April 12, 2004, the ICC filed an objection to the request for temporary rates. Consumer Advocate and the CCRF each filed an objection on April 14, 2004. IPL subsequently filed timely responses to the objections. On June 11, 2004, the Board granted a temporary rate increase not to exceed $98,183,041 (on an annualized basis).

In setting temporary rates, the Board noted at page 13 of the order that, as was true in IPL's last electric rate case, "the most difficult issue is the allocation of temporary rates among pricing zones." The Board modified IPL's proposal to spread the temporary revenue increase across customer classes through a uniform percentage adjustment to total class base rate revenues and across rate groups within customer classes on a uniform dollar-per-kWh basis. IPL's approach, while it reduced class zone differentials on a percentage basis, maintained current differentials on a dollar-per-kWh basis. The modifications made by the Board allowed additional progress in temporary rates toward rate equalization by reducing not only the percentage differentials but also the actual price differentials.

On July 13, 2004, a non-unanimous settlement on revenue requirement issues was filed. The settlement provides for an increase of $107,011,474 in the Iowa annual revenue requirement, not including rate case expense. For non-Emery generation station (Emery) related rate base, the return on equity is 10.7 percent. The return on Emery, which was determined in a separate ratemaking principles proceeding, is 12.23 percent. <u>See</u>, <u>Interstate Power and Light Company</u>, "Order Approving Settlement and Granting Application," Docket No. RPU-02-6 (9/17/02). IPL, Consumer Advocate, CCRF, Swiss Valley, Deere, and the ICC signed the settlement. No testimony was filed by any intervenor regarding revenue requirement issues and no objections to the settlement were filed pursuant to 199 IAC 7.2(11).

A second non-unanimous settlement was filed on August 13, 2004. This settlement provides that $577,776 of the agreed Iowa jurisdictional revenue increase shall be allocated to IPL's resale customer class, that the retail increase shall be allocated to IPL's major retail customer classes using the same methodology relied upon by the Board in the temporary order to allocate the temporary increase, and that the Large General Service power factor in the IES-N zone shall be adopted for the IES-S zone, effective January 1, 2006. The settlement specifically provides that, if approved, no refunds are due; and that IPL's methodology, as modified by the Board's temporary order, shall be used in allocating the increase among rate groups within each customer class when setting final rates. The settlement was signed by IPL, Consumer Advocate, Swiss Valley Farms, Maytag, MCEG, Deere, Lakeside Casino, and the ICC. After subtracting the amount allocated to the resale class, the annual revenue requirement increase in the settlement is $106,433,698, not including rate case expense.

Unlike the first settlement, testimony and objections to the second settlement were filed. CCRF contested portions of the second settlement, including class cost allocations and final rate determinations. Hearings were held beginning October 4, 2004, and all parties had the opportunity to file initial and reply briefs.

II. INTRODUCTION

As was true with IPL's most recent rate case, Docket Nos. RPU-02-3 and RPU-02-8, decided on April 15, 2003, this case presents difficult policy choices. The revenue requirement increase is the subject of a settlement that has not been opposed by any party. The total annual increase provided for by the settlement, approximately $107.2 million, is about $8.8 million, or less than 1 percent, over the $98.2 million in temporary rates in effect since last summer. This general agreement regarding the overall increase leaves revenue allocation and rate equalization the primary issues to be decided.

IPL's four separate pricing zones are the result of mergers and consolidations that Iowa's electric industry has experienced in the last 17 years. That history, and the movement toward rate equalization, is detailed in the Board's final decision and order in Docket Nos. RPU-02-3 and RPU-02-8 at pages 11 through 16. As was true in that case, allocation of rate increases among classes and zones and rate equalization were the most contested issues in this proceeding. Allocation of rate increases in the current docket was the subject of a non-unanimous settlement. Unlike the debate in Docket Nos. RPU-02-3 and RPU-02-8, none of the parties in this proceeding contested whether equalization should ever occur. The Board's decision in Docket Nos. RPU-02-3 and RPU-02-8 appears to have settled that debate and all parties accept that equalization will and should occur. However, the parties disagreed over the time frame for equalization to occur. There was also disagreement as to whether equalization should occur without considering other cost of service issues such as class revenue realignments. Not surprisingly, an intervenor's opinion over the pace for equalization depended on the pricing zone in which the intervenor received service.

As was true in the last case, the Board must balance the concept of cost-based rates and fairness with the financial and social implications that result from equalization. The Board is firm, however, that its policy of reducing rate zone disparities must continue in an orderly, timely manner.

Although all IPL customers have experienced rate increases resulting from the decision in Docket Nos. RPU-02-3 and RPU-02-8 and the temporary rate order in this docket, some customer classes in some rate zones have had larger increases. For example, if both settlements are approved, General Service customers in the IES-S and IPC zones will have received cumulative increases of over 26 percent since mid-2002. The cumulative increases for Large General Service customers in the IES-S zone will be 23.1 percent, and almost 40 percent for Residential customers in the IES-S zone. The steady movement towards rate equalization must be tempered to avoid unreasonable financial effects on those in lower-priced zones. The Board notes that the additional financial impact of the July 13, 2004, revenue requirement settlement is small. The final revenue requirement differs from temporary rates by less than 1 percent.

This case is not the end of the road unless immediate equalization <u>and</u> rate consolidation are ordered today. In the last case, significant progress toward equalization was made on a dollar-per-kWh basis. That progress will continue in this case. IPL has committed to filing a plan on or before June 30, 2005, to reclassify customer classes and consolidate its class rate structures. Until target class rate structures are established, equalization can only occur on an approximate basis using dollar-per-kWh averages. Class rate structure consolidation is a process that may have significant rate consequences for individual customers. Often these consequences are not known until an estimated rebilling analysis of customer usage is performed for a particular consolidation proposal. The Board believes any equalization time-frame target must remain flexible enough to accommodate unknown rate design consequences arising from consolidation and reclassification.

The Board will address the two settlements separately and then address other issues in this case. The Board is mindful of the impact its decisions have on both residential and commercial ratepayers. The Board reminds all ratepayers that IPL has programs in place that are available to mitigate the effect of rate increases. IPL's energy efficiency plan includes programs for all customer classes that assist customers in reducing and better managing their energy usage. The Board encourages all customers to carefully examine these programs to see which ones might benefit them.

III. REVENUE REQUIREMENT SETTLEMENT

On July 13, 2004, a non-unanimous settlement (Revenue Requirement Settlement) on revenue requirement issues was filed. The Revenue Requirement Settlement provides for an increase of $107,011,474 in the Iowa annual revenue requirement, not including rate case expense. For non-Emery related rate base, the return on equity is 10.7 percent. The return on Emery, which was determined in a separate ratemaking principles proceeding, is 12.23 percent. IPL, Consumer Advocate, CCRF, Swiss Valley, Deere, and the ICC signed the Revenue Requirement Settlement. No testimony was filed by any intervenor regarding revenue requirement issues and no objections to the settlement were filed pursuant to 199 IAC 7.2(11). Subsections "c" and "d" of that rule provide that parties opposing the settlement have 30 days from the date of the settlement to file comments. Any failure by a party to file comments constitutes a waiver by that party of all objections to the settlement. Subrule 7.2(11) further provides that the Board "will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest."

The Revenue Requirement Settlement represents a retail rate increase of $8,250,657, not including rate case expense, over the amount allowed in temporary rates, which was $98,183,041. The remainder of the $107,011,474 increase, or $577,776, is the portion of the increase allocated to resale. The most significant adjustments are additional amounts to reflect Emery costs and investments that were not in-service prior to the time temporary rates were set. Other significant adjustments that were not included in temporary rates were adjustments related to an inventory savings program, delivery replacement system costs, and IPL's combustion initiative. These adjustments had not been included in temporary rates either because an asset was not in-service prior to temporary rates or the adjustment did not reflect an established regulatory principle. The Revenue Requirement Settlement is significantly less than IPL's initial request in its prefiled testimony.

The non-Emery return on equity of 10.7 percent is lower than the 11.15 percent allowed in temporary rates. In temporary rates, the Board is required by Iowa Code § 476.6(13) to allow a return on common equity equal to that which was held reasonable in the most recent rate case involving the same utility or type of utility service, provided the Board's decision was rendered within 12 months prior to IPL's request for temporary rates. In IPL's last rate case, Docket Nos. RPU-02-3 and

RPU-02-8, the Board issued its order on April 15, 2003, and granted IPL a return on equity of 11.15 percent. That order was issued less than 12 months prior to IPL's request for temporary rates in this docket.

The Board uses a risk premium model to check or validate results using the various discounted cash flow methods. Since the Board's decision in Docket No. RPU-02-3 was issued, the 12-month A-rated utility bond average has declined. At the time the settlement was executed, the rate was 6.46 percent, which would support a cost of equity range of between 8.96 and 10.96 using the Board's risk premium approach, which adds 250 to 450 points to the most recent yield of A-rated utility bonds. The Revenue Requirement Settlement's return on equity is within that range.

The cost of equity for Emery used in the Revenue Requirement Settlement is 12.23 percent. This return was set by the Board in a ratemaking principles decision issued on September 17, 2002, in Docket No. RPU-02-6. Iowa Code § 476.53 encourages utilities to build electric generation facilities in Iowa by providing for advance ratemaking principles that are binding in subsequent rate proceedings.

While the Board's decisions on individual revenue requirement issues may have been different than the amounts contained in the settlement if revenue requirement issues had been contested at hearing, the Board looks at the settlement as a whole to determine if it should be approved. Examining the Revenue Requirement Settlement in its entirety, it is reasonable in light of the whole record, consistent with law, and in the public interest. The Revenue Requirement Settlement will be approved.

IV. REVENUE ALLOCATION SETTLEMENT

On August 13, 2004, a second, non-unanimous settlement was filed (Revenue Allocation Settlement). This settlement addressed revenue allocation and certain rate design issues. Other than the allocation of the final revenue requirement increase at the conclusion of this case, the second settlement does not address rate equalization. All but three of the parties, the CCRF, LCEUG, and Wapello, joined in the Revenue Allocation Settlement. Of these three, only the CCRF filed an objection to the Revenue Allocation Settlement, along with testimony in opposition to the settlement.

The Revenue Allocation Settlement can be summarized as follows:

1. $577,776 of the agreed-upon $107,011,474 total revenue requirement increase from the first settlement shall be allocated to the resale (i.e., wholesale) class. The remainder of the increase, or $106,433,698, plus one-third of IPL's rate case expenses in this case, shall be allocated to IPL's Iowa retail customer classes. (Article VI).

2. IPL's final retail tariff rates shall not go into effect before February 1, 2005. (Article VII).

3. There shall be no refund of temporary rates. (Articles VII & VIII).

4. The final retail revenue requirement increase shall be allocated among customer classes using the same methodology the Board used to allocate the temporary increase (i.e., through a uniform percentage adjustment to class base rate revenues). (Article VII).

5. The final class revenue requirement increases shall be allocated among class rate zones using the same methodology the Board used to allocate the temporary increase (i.e., limiting increases in the higher priced

rate zones to 90 percent of what they would have been otherwise and limiting all increases to less than 20 percent -- if there is a conflict, the 20 percent limit controls). (Article VIII).

6. IPL is allowed to implement its proposed change to the power factor provisions in its IES-S Large General Service (LGS) tariffs, to match those used in its IES-N LGS tariffs. The changes would begin with bills issued on or after January 1, 2006, based on compliance tariffs to be filed in this case. (Article IX).

The CCRF specifically objected to the method for allocating the retail revenue requirement increase among customer classes, the method for allocating class revenue requirement increases among class rate zones, and the statement in the settlement that there shall be no refund of temporary rates. The CCRF accepted the split of the revenue requirement increase between retail and resale and the change in the LGS power factor provisions in the IES-S zone to match those in the IES-N zone.

The Board will first address the allocation of the final revenue increase among customer classes. The Board will then address the allocation of class increases among class rate zones.

A. Allocation of the Revenue Increase Among Customer Classes

The parties to the Revenue Allocation Settlement support the approach initially proposed by IPL, which increases class base rate revenues by a uniform percentage. The parties state that the purpose of this approach is to avoid compounding the revenue requirement and equalization increases with increases from class cost realignments. IPL argues that class cost-of-service realignments should be addressed later in the equalization process, after redefining customer classes and consolidating class rate structures. IPL maintains it makes sense to define new customer classes and design their rates first, absorbing these changes before making changes in class cost allocation. IPL provided a class cost-of-service study that was utilized by the CCRF in its proposal, but IPL did not advocate setting rates in this proceeding using its new study.

All of the cost-of-service variations supported by the CCRF would reduce the General Service class increase at the expense of the Residential and Bulk Power classes. The CCRF's primary proposal allocated the revenue requirement among customer classes according to the CCRF's variation of IPL's Average and Excess (A&E) allocation method, called "Firm A&E." Unlike IPL's A&E method presented in prior rate cases, the CCRF's "Firm A&E" variation excludes interruptible and lighting loads from the calculation of A&E "excess" demand.

Consumer Advocate supported the Revenue Allocation Settlement and noted that class cost-of-service studies are not precise tools and strict adherence to a study does not necessarily produce just and reasonable rates. Consumer Advocate also pointed out that the CCRF was incorrect when it argued the Revenue Allocation Settlement method was not cost-based. In fact, it is based on uniform percentage adjustments to the Board's class cost allocations in IPL's last rate case, the foundation for which was IPL's standard A&E method.

In particular, Consumer Advocate objected to the CCRF's changes to the A&E method. Consumer Advocate in effect said that removal of interruptible load implicitly overvalues that load. (Tr. 828-29.) Consumer Advocate noted the Board has consistently rejected such changes, most recently in the April 15, 2003, decision in IPL's prior rate case, Docket Nos. RPU-02-3 and RPU-02-8. The Board said at page 68:

> The Board continues to believe it is reasonable to include interruptible load in allocating demand costs because this recognizes that a utility builds its generation to serve all loads, not just firm peak load. See, IES Utilities Inc., "Final Decision and Order," Docket No. RPU-94-2, (May 12, 1995), pp. 27-28.

The MCEG also objected specifically to the CCRF "Firm A&E" method. The MCEG said the "Firm A&E" method seemed to change the value assigned to interruptible load, and this value should only be determined in IPL's ongoing energy efficiency docket, Docket No. EEP-02-38. Other parties to the Revenue Allocation Settlement made comments in brief supporting the settlement, including Maytag, Deere, Swiss Valley, and Lakeside.

The ICC supported the Revenue Allocation Settlement and said additional increases due to shifts in class cost-of-service would contribute to rate shock. In the ICC's opinion, the settlement appropriately balances the Board's equalization goals and the need to avoid unreasonable rate impacts.

In addition, the ICC pointed out that the IPL class cost-of-service study used by the CCRF appears to have data anomalies that call into question whether it accurately represents long-term class cost responsibility. For example, adjusted test year coincident peak demand is significantly lower in this case than in IPL's last rate case, even though kWh usage is slightly higher. If these anomalies are due to weather, the ICC argued that perhaps demand and energy data should be normalized for future studies.

Class cost-of-service studies are a useful guide in setting rates, but such studies are not the only consideration in setting just and reasonable rates. Subrule 199 IAC 20.10(1) allows the Board to waive strict adherence to its ratemaking standards and the Board's rules do not specifically require a utility to file a new class cost-of-service study if there are no proposed changes in rate design. The allocation method in the Revenue Allocation Settlement is rooted in the A&E method that was approved and adjusted by the Board in Docket Nos. RPU-02-3 and RPU-02-8. In adjusting the results of the class cost-of-service study for setting final rates, the Board said:

> [O]ther factors, such as mitigating rate shock associated with large, sudden rate changes, may also be considered in determining reasonable application of the class cost-of-service study, particularly when there are substantial price differences among customers in the same class based solely upon the pricing zone they are located in. <u>Interstate Power and Light Company</u>, "Final Decision and Order," Docket Nos. RPU-02-3, RPU-02-8 (April 15, 2003), p. 64.
>
> These limitations and adjustments are made in the interest of making progress toward zonal rate equalization while mitigating individual impacts. <u>Interstate Power and Light Company</u>, "Final Decision and Order," Docket Nos. RPU-02-3, RPU-02-8 (April 15, 2003), p. 82.

This rationale also applies to the Revenue Allocation Settlement. The Revenue Allocation Settlement preserves the same class revenue relationships established in IPL's last rate case and therefore avoids the impact of combining class cost-of-service revenue shifts with intra-class equalization shifts.

The Board will approve the allocation of the revenue increase among customer classes contained in the Revenue Allocation Settlement. The Board has consistently rejected the CCRF's proposed changes to the A&E method. Interruptible load must continue to be included because a utility builds generation to serve all loads, not just peak loads. In addition, the data anomalies pointed out by the ICC are potentially troublesome. The fact that peak is lower when usage is higher seems to be contradictory. It could be weather, as suggested by the ICC, or the adjustment for interruptible load, as suggested by the CCRF, or something else. (Tr. 882; 1037-38.) IPL will be required to address the source of this apparent anomaly in its next study.

This portion of the Revenue Allocation Settlement appropriately balances the principle of cost-based rates with other ratemaking principles, such as the avoidance of rate shock. With all the rate changes in this case, it does not make sense to impose changes from class cost allocation, particularly when IPL will be redefining customer classes and consolidating class rate structures. The best time for a new class cost-of-service study is after the classes are redefined and class rate structure targets have been established.

B. Allocation of the Class Increases Among Class Rate Zones

IPL initially proposed to maintain its current average dollar-per-kWh rate differentials among class rate zones, thereby reducing the differentials on a relative percentage basis. However, in the temporary rate order, the Board required IPL to reduce these differentials on a dollar-per-kWh basis in order to make additional progress toward rate equalization, capping class zone increases at less than

20 percent. The Revenue Allocation Settlement adopts this approach for the total increase, reducing class rate zone differentials on both a percentage and dollar-per-kWh basis.

The CCRF argued that IPL's class zone rates should be equalized immediately at the conclusion of this case, based on the CCRF's class cost-of-service study (discussed previously) and on IES-N class rate structures (discussed later). The CCRF's alternative approach would equalize rates in a two-step process, with the first step being at the conclusion of this case and the second step occurring one year later. The CCRF stated that delaying the equalization process results in rates that are unjust, unreasonable, discriminatory, and confiscatory, in violation of Iowa Code §§ 476.5 and 476.6 and the Equal Protection and Takings clauses of the United States and Iowa constitutions.

The ICC, in its brief supporting the Revenue Allocation Settlement, argued that no constitutional issues are raised as alleged by the CCRF. This is because there was a historical basis for the current rate differentials. The ICC contended that because these differentials came about over time, they can only be eliminated over time. To do otherwise would cause undue rate shock. The MCEG also argued that fully equalizing class rate zones in this case would cause rate shock in its harshest form.

Lakeside argued that Iowa Code § 476.8 requires the Board to set just and reasonable rates based on all the evidence in the record. Lakeside argued this includes consideration of rate impacts and their consequences. Subrule

199 IAC 20.10(1) allows exemptions from strict adherence to the cost of service standards of 199 IAC 20.10(2).

The Board finds the Revenue Allocation Settlement's method for allocating class rate increases among class rate zones to be reasonable and will adopt it. The Revenue Allocation Settlement as a whole is reasonable in light of the whole record, consistent with law, and in the public interest. It will be approved. The Board notes that no refunds will be due in this case. Under the Board's refund methodology, when revenues under temporary rates are lower than they would have been under final rates, there is no refund obligation.

The CCRF would have the Board strictly adhere to the principle of cost-based rates. However, this is not the only consideration in setting rates and must be balanced with other factors such as avoiding or mitigating the effects of large rate increases, where possible. The allocation method contained in the Revenue Allocation Settlement makes significant progress toward rate equalization while taking into account fairness issues for all customers in all rate zones and consideration of the effect of full rate equalization. As the Board noted at page 19 of its temporary order:

> On the surface, one might expect that if rates for lower price zones were to increase significantly with full equalization, rates in higher price zones would decrease significantly. However, this is not the case, because IPL has substantially more customers in the higher-priced north and southeast than in the lower-priced southern zone and because of the revenue increase associated with temporary rates.

This observation applies to the revenue increase associated with final rates as well.

Finally, as will be more fully discussed in the section on rate structure consolidation, a significant problem with the CCRF's full equalization proposal is that it assumes adoption of IES-N class zone rate structures without verifying their applicability to the IPC zone and without knowing the potential rate impacts on individual customers.

V. RATE EQUALIZATION PLANS

In IPL's most recent rate case, there were arguments over whether rate equalization should in fact occur. In this proceeding, all the parties appear to have accepted the fact that rate equalization will occur. The arguments are over the appropriate time period and whether percentage limits should be placed on the increases in each step.

All of the parties' proposals for allocating the class zone increases in this case are presented as step 1 of their respective rate equalization plans. Initially, IPL proposed no equalization plan beyond the step to be taken in this case. Subsequently, IPL proposed a plan to equalize rates in three annual steps, the first step being the one taken in this case, plus two additional steps. Annual increases would be 10 percent or less, with the exception being a 14 percent increase for "Other Public Authorities" in step 3. IPL modified the plan to reflect the Revenue Allocation Settlement, which meant that maximum increases in step 1 could be 20 percent. IPL said its proposal balanced the limitation of customer increases with the need for customer certainty. IPL noted that, depending on the potential customer impacts from its impending reclassification and rate structure consolidation case, it might propose phasing in these changes over a longer period.

Consumer Advocate proposed a plan that would equalize class rate zones over different periods ranging from 3 to 8 annual steps, depending on the overall magnitude of the increases required for the lower-priced zones. For most classes, equalization would occur over 5 to 7 additional steps. Consumer Advocate was open to the idea of limiting any future annual increases to 3 to 4 percent, including revenue requirement increases. In other words, future revenue requirement increases could delay final equalization.

The ICC proposed a similar plan. Given the large increases that have occurred in recent years for some customers, the ICC proposed a gradual approach for future rate equalization over no less than 7 additional steps, with future individual class rate zone increases capped at 5 percent. The cap includes any future revenue requirement increases. In other words, if a new revenue requirement case resulted in a 4 percent revenue requirement increase, the additional equalization increase could not exceed 1 percent. If the revenue requirement increase exceeded 5 percent, there would be no equalization increase that year. Deere and Swiss Valley generally concurred in the ICC proposal.

Maytag, a General Service customer in the IES-S zone, supported a 5 to 7 year phase-in for rate equalization. Lakeside also proposed a 5 to 7 year phase-in.

The MCEG noted, as did others, that given the size of the current rate differentials, some classes can and should be equalized over shorter periods. The

MCEG argued an equalization plan should focus on maximum proposed increases, rather than on time periods. The MCEG plan contained 7 additional steps with future increases generally limited to 3 percent per year. However, some classes would be equalized in the next 3 to 5 years.

The CCRF, as has been previously discussed, proposed either immediate equalization or a two-step plan, the first step implemented at the conclusion of this case and the second step occurring in March 2006. CCRF argued that in Docket Nos. RPU-02-3 and RPU-02-8, the Board found that IPL is operated as one integrated system. All IPL customers pay the same energy costs through IPL's energy adjustment clause. The CCRF argued that because all customers use the same integrated generation and transmission system, IES-N customers should no longer subsidize customers in the lower priced rate zones by paying higher rates.

The CCRF maintained that full equalization would not bring about rate shock because the increases proposed by the CCRF should have been anticipated by customers. The Board's intent to equalize rates has been known for some time, and the CCRF's proposal would likely complete the equalization process prior to IPL filing another revenue requirement case. The CCRF argued the proposals submitted by other parties take too long with no guarantee; because of the absolute increase caps they would impose, rate equalization might never be completed.

The other parties opposed the CCRF's proposal, asserting it is in conflict with the Revenue Allocation Settlement. Consumer Advocate noted that rate shock is not mitigated by anticipation of an event, especially with the magnitude of the increases proposed by the CCRF for some customers. Consumer Advocate argued that the dramatic increases in the CCRF proposal could significantly harm businesses and local economies in the IES-S and IPC zones. The ICC estimated that combined with the increases in IPL's last rate case, the CCRF proposal would mean a total cumulative increase of 55 percent for IES-S residential customers and 35 percent for IES-S Large General Service customers. The MCEG agreed that large rate increases produce rate shock, whether anticipated or not, and could harm businesses. The MCEG emphasized that the rate differentials on IPL's system are the result of legitimate, cost-based historical differences and therefore rate equalization should take place over time. Maytag stated that any equalization plan should provide rate stability by minimizing rate impacts and providing certainty that will promote effective business planning.

Lakeside, a Large General Service customer in the IES-S zone, said that under the CCRF's proposal, its total rate increase in this case could be more than 23 percent. In setting just and reasonable rates pursuant to Iowa Code § 476.8, the Board must consider rate impacts and their consequences. Lakeside argued that rate stability should outweigh the goal of rate equalization.

The following table summarizes some of the various rate equalization proposals and provides a quick look at the range of options presented to the Board. The parties' proposals for allocating the class increases among class rate zones in this case (discussed previously) are represented as "Step 1" of their equalization plans. Many of the plans also cap any increases, which could extend the equalization period indefinitely.

Proposing Party	Equalization Period
IPL	3 Steps
CCRF	Immediate Plan
CCRF	2-Step Plan
Consumer Advocate	3 – 8 Steps [2]
ICC	8 Steps
MCEG	3 – 8 Steps [3]

Because of the uncertainties associated with future rate cases, the Board concludes it is not sound public policy to adopt inflexible schedules or impose absolute increase caps. The Board recognizes that full equalization will not be completed until there is also rate consolidation, but concludes that estimating equalization on a dollar-per-kWh basis serves as a viable proxy for setting reasonable equalization targets at this time.

The parties parried back and forth on the question of what constitutes rate shock. The term is widely used but there is no agreed-upon definition. In its orders, the Board has used the term as short hand for significant rate impacts, particularly rate impacts that are likely to cause customers to over-react for one reason or another. An example would be a single large rate increase that causes industrial customers to cancel expansion plans out of concern for future, similar increases. Regardless of how that term is defined, there is no question that the increases experienced by IPL customers in the last two rate cases have been significant. The

[2] Variable, depending on the class.
[3] Variable, depending on the class.

following are some examples of the cumulative increases experienced by customers in various pricing zones from Docket Nos. RPU-02-3 and RPU-02-8 and the settlements that will be approved in this case: IPC Residential, 26.9 percent; IES-S Residential, 39.7 percent; IES-S General Service, 26.4 percent; IPC General Service, 27.3 percent; IES-S Large General Service, 23.1 percent; IPC Large General Service, 14.1 percent. It should be noted that customers have already experienced most of the increase in this case because the final revenue requirement is less than $9 million higher than the temporary rate requirement.

Just and reasonable rates means more than mathematical equality. The Board has a duty to consider all relevant factors and must balance cost of service factors with the effect of significant rate increases and the uncertainty associated with future cases. Rate equalization can also take place over different time frames for different classes because the magnitude of the differences varies by class. Taking all these factors into consideration, the Board will adopt the following target time frames for full equalization:

Residential customers—5 years
General Service customers—5 years
Large General Service customers—3 years
Lighting—3 years

The Board believes these target time frames are reasonable and represent an appropriate balancing of the interests of customers in all zones. This schedule continues IPL’s progress toward equalization but mitigates the effect of large immediate increases. IPL will be required to make annual, revenue-neutral filings to equalize rates in equal steps, based on the billing determinants in its most recent rate case. The first filing will be due on or before June 30, 2005.

The Board recognizes that no intervenor is likely to be completely satisfied with the targets. For those intervenors in the lower-priced zones, the timetable is too quick; for those in the higher-priced zones, too slow. For those who want immediate equalization, it is important to review the progress that has been made in this docket and IPL's prior rate case, Docket Nos. RPU-02-3 and RPU-02-8. Compared to the class average on a dollar-per-kWh basis, average rate differentials for Large General Service customers have been reduced by 50.4 percent in the IES-N zone and by 48.5 percent in the IES-S zone. Rate differentials for General Service customers have been similarly reduced: 53.9 percent in the IES-N zone, 41.5 percent in the IES-S zone, and 40.6 percent in the IPC zone. Residential rate differentials have also been significantly reduced in the IES-N and IES-S zones. Schedule J attached to this order shows some of the estimated percent reductions in rate differentials.

VI. RATE STRUCTURE CONSOLIDATION

Rate structure consolidation, although discussed in the context of some of the prior issues, was a separate issue in this proceeding. Rate structure consolidation is the end-point of rate equalization because at that point customers in all four current pricing zones in the same customer class with the same usage will pay the same rates. Until rate structures for the four pricing zones are consolidated, rates can only be equalized on an approximate basis using the dollar-per-kWh average.

IPL proposed to maintain its current rate design for final rates, increasing individual tariff base rates by uniform percentages. In prior cases, IES-N and IES-S rate structures have been largely brought into alignment. The energy adjustment clause and energy efficiency cost recovery charges have also been previously consolidated. IPL proposes only the following structural consolidation changes, which will be addressed in subsequent sections of this order. They are: (a) redesigning IES interruptible credits to match the IPC credit structure, (b) adopting IES-N power factor adjustments for the IES-S zone, and (c) adopting IES-N excess facilities charges for the IPC zone.

IPL requested that any further consolidation of IES and IPC rate structures be addressed in the future. IPL said that before proposing a consolidated rate structure, it wants to analyze existing customer classifications and potential customer impacts. IPL is currently evaluating customer classifications and ways to harmonize its class zonal rate structures, and commits to file a proposal with the Board by June 30, 2005. The proposal will also include a consolidation of rules and regulations. IPL intends to make this filing on a revenue-neutral basis, using the data from this proceeding as the starting point. This will include the final retail revenue requirement, class revenue requirement allocations, class rate elements, and 2003 test year billing determinants.

IPL said that depending on the potential customer impacts of customer reclassification and rate structure consolidation, it might propose a phased-in rate structure consolidation. Subsequent to establishing customer reclassification and rate consolidation targets, IPL will file a case for class cost-of-service revenue realignments.

The CCRF proposed that IPL's rate structures be fully consolidated by customer class based on rate structures currently used in the IES-N zone, either at the conclusion of this case or by March 2006. The CCRF argued that rate equalization involves consolidating rate structures, not merely equalizing average rate levels on a dollar-per-kWh basis. The CCRF maintained that the equalized dollar-per-kWh approach produces a distorted picture because it ignores zonal differences in total usage, time and seasonal usage, and load factor.

The CCRF argued it was appropriate to consolidate rate structures based on the rate structures currently used in the IES-N zone because IES-N and IES-S rate structures are similar and are both based on IES-N load research and cost data approved in Docket No. RPU-89-9. The CCRF believes this data has not changed significantly since it was gathered in 1988.

Consumer Advocate said there should be no change in tariff base rate structures in this case, arguing that the revenue requirement increase and equalization changes are already causing significant rate impacts. Consumer Advocate maintained that additional impacts from changes in base rate structures would be inappropriate and might contribute to rate shock. Consumer Advocate also said that IPL must perform additional load research and analysis to determine which customer classes and rate designs are appropriate for IPL as a whole. IPL agreed that to avoid unintended consequences, additional analysis is necessary before reaching any conclusions about the most appropriate, cost-based rate structure for IPL customers.

The ICC also contended that given the significant revenue requirement increase and progress toward equalization in this case, it is unreasonable to add the additional, unknown rate impacts that could come with immediate rate structure consolidation. The ICC pointed out that it appears all parties agree that average dollar-per-kWh rates are not the intended outcome of rate equalization; but that, at this stage of the process, average dollar-per-kWh is a reasonable proxy to measure progress. Swiss Valley, Deere, and Lakeside also agreed that rate consolidation should be postponed to a future proceeding.

The MCEG supported IPL's proposal to consolidate rules and regulations in a future proceeding, but does not support consolidating class rate structures now or in the future. The MCEG argued the benefits of uniform class rate structures are not clear and that a variety of tariffs and class rate structures might better reflect cost-based rates. The MCEG argued that the CCRF's rate consolidation proposal pushes for too much too fast, without considering potential adverse impacts on individual customers. The CCRF's proposal sacrifices accuracy and fairness for the sake of speed and, therefore, does not produce just and reasonable rates.

The CCRF's proposal for immediate rate structure consolidation is tied to its proposal for immediate rate equalization. (Tr. 1071; CCRF Initial Brief, p. 13.) The CCRF correctly points out that immediate equalization on the basis of average dollar-per-kWh alone would introduce distortions, based on how the differing zonal customer usage characteristics interact with different class rate structures. (Tr. 965-66.)

If equalization takes place over a longer time frame, then there is no need for a uniform rate structure to be imposed now. As pointed out by Consumer Advocate and other parties, average dollar-per-kWh provides a reasonable initial benchmark for approximating a longer-term equalization plan. (Tr. 603-05.) A target rate design will be necessary later in the process, and IPL has committed to propose such a target design by June 30, 2005. (Tr. 502.)

The CCRF presented evidence that the current IES-N rate structure was based on IES-N load research in Docket No. RPU-89-9 and then compared this older data with 2003 IPL class load factor data. The CCRF attempted to show by this comparison that the IES-N rate structures are appropriate for the IPC zone and IPL as a whole. The CCRF suggested that the current IPC rate structures might be based on borrowed load data from IES. (Tr. 1075; 1088-91.) The CCRF did not refer to the extensive load research evidence presented by IPC in its earlier pre-merger rate design case, Docket No. RPU-92-10. (Docket No. RPU-92-10, Tr. 209-31; Ex. 24-31.) More importantly, although CCRF's load factor comparisons show some similarities, this evidence is not conclusive. Rates can be designed in several different ways, taking into account much more information than monthly class load factor. It may be that the IPC structure would be a better fit for IPL as a whole, but the Board believes it is more likely that no existing zone's rate structure will be appropriate for IPL as a whole. IPL has committed that its customer reclassification and rate consolidation analysis will take into account cost studies, load research, and customer impact studies for IPL as a whole to determine a uniform cost-based rate structure that best reflects its entire customer base. (Tr. 500-02.)

Perhaps the most significant argument for determining rate structure consolidation in a subsequent case is that the rebilling analyses provided in the CCRF's proposal show only broad revenue impacts by rate group and provide no information about the range of impacts on individual customers. (Tr. 1091-92.) Individual customer impacts from rate design changes can be sizeable and should be considered in any rate consolidation proposal. IPL, in its June 30 filing, committed to identify unintended individual customer rate design impacts and explore possible mitigation strategies. (Tr. 501.)

The risk of unintended consequences in the CCRF proposal is too great, particularly since the CCRF was largely working with outdated data and making assumptions based on this outdated data. The Board will not adopt the CCRF's proposal for immediate rate structure consolidation, either immediately or within one year.

The CCRF requested alternative relief if the Board did not adopt its primary proposal. The CCRF asked the Board to begin the rate structure consolidation process by, among other things, consolidating customer charges, eliminating IPL "Other Public Authorities Rates," adopting IES seasonal and time-of-day definitions for IPC rates, and adopting IES block rate structures for IPC rates.

The Board will not adopt these changes because they either have unknown customer impacts or might complicate IPL's consolidation study. A similar customer charge consolidation proposed by Consumer Advocate in IPL's last rate case was also rejected. Interstate Power and Light Company, "Final Decision and Order," Docket Nos. RPU-02-3 and RPU-02-8 (April 15, 2003), pp. 72-73.

The Board will adopt one of the CCRF's suggested changes. The Board will order IPL to transfer remaining embedded energy costs in IPC base rates to the energy adjustment clause (EAC). This will be a seamless, revenue-neutral change for each IPC customer. It will have no billing impacts and will complete the process of consolidating IPL's EAC clause. This change is to be part of IPL's compliance tariff filing.

The Board will adopt IPL's proposal to increase individual tariff base rate elements by uniform percentages, as was done in IPL's last rate case. The Board will approve IPL's proposal to file a revenue-neutral customer reclassification and rate consolidation plan and, consistent with IPL's commitment, will order this plan to be filed on or before June 30, 2005. IPL will also, consistent with its commitment, be required to include detailed information in its filing about the ranges of individual customer impacts from customer reclassification and rate design changes proposed in its plan. Customers must also be notified about the customer reclassification and rate design changes IPL will propose. Finally, to facilitate preparation of the case, IPL's requested baseline assumptions for the proposed plan will be approved.

VII. INTERRUPTIBLE CREDITS

Currently, IES-N and IES-S interruptible credits are calculated according to a formula embedded in LGS demand rate structures. Interruptible customers receive varying percentage reductions in their kW demand billing units, such that any percentage increase in LGS demand rates automatically increases the level of interruptible credits by the same percentage. IPL's initial rate case filing continued this credit design by proposing to automatically increase the IES interruptible credits embedded in its IES LGS demand rate structures. In other words, IES interruptible credits would increase by the same percentage as IES LGS demand rates. IPL proposed to treat IPC customers the same way.

In response to the Board's April 13, 2004, order requiring additional information in this docket, IPL filed a revised rate proposal that redesigned its IES interruptible credits to match the straight dollar per kW credit structure used in the IPC zone. (Tr. 475-81; Ex. 11, Sch. C, Rider 11.) This proposal would completely sever the relationship between IES interruptible credits and LGS demand rate structures. In IPL's last rate case, Docket Nos. RPU-02-3 and RPU-02-8, the Board approved IPL's proposal to detach its interruptible rate program from base rate cost recovery, and transferred interruptible rate design and cost recovery to IPL's energy efficiency plan (EEP) proceedings. If approved, IPL's proposal would complete the separation of interruptible credits from base rates. This is because the credit levels would no longer change with changes in base rates, but would only be changed in energy efficiency proceedings.

IPL's May 13, 2004, proposal froze overall interruptible credit amounts at pre-case test year levels. (Tr. 477; 480-81.) The proposed redesign of the credits on an average dollar-per-kW basis will affect individual customers differently, causing some to receive more total credit than they did previously before the rate case and others to receive less.

In its post-hearing briefs, IPL clarified its interruptible credit rate design proposal. Rather than freeze the credits at pre-case levels, IPL asked that it be allowed to increase its redesigned IES interruptible credits and IPC credits by the same percentage as its corresponding LGS/LPL demand rates. IPL said this revision was to minimize rate shock from the cumulative impacts of the revenue requirement increase, equalization increases, and the redesigned IES interruptible credits. The ICC generally supports IPL's proposal, including the proposal to increase interruptible credit levels to minimize interruptible customer rate shock.

Consumer Advocate does not object to detaching IES interruptible credits from the LGS demand rate structure and converting them to straight dollar-per-kW credits, but it opposes increasing interruptible credit levels. Consumer Advocate argues that any adjustment to credit levels should be made in IPL's energy efficiency proceeding, Docket No. EEP-02-38, and should be based on avoided costs. Consumer Advocate believes changing the credit level based on something other than avoided costs would not completely sever the relationship between IES interruptible credits and base rates. The MCEG also opposes the increase in interruptible credits, noting that this would link the rate case with Docket No. EEP-02-38 and be contrary to the

Board's June 18, 2004, decision in Docket No. EEP-02-38 not to consolidate the two cases.

Swiss Valley is an interruptible customer. In its testimony, Swiss Valley supported determining the credit level in rate case proceedings rather than energy efficiency proceedings. Swiss Valley contends the level of interruptible credits is a cost of service issue and any rate design changes should take place in separate, revenue-neutral proceedings.

The CCRF believes the proposed interruptible credit redesign is contrary to the Revenue Allocation Settlement because the settlement provides that the retail increase is to be allocated to customer classes and among rate zones within each customer class according to the same methodology the Board used in its temporary rate order. In the temporary rate order at page 21, the Board accepted that the design of interruptible credits would remain unchanged for temporary rates. If the Board rejects the Revenue Allocation Settlement, the CCRF does not oppose IPL's proposed interruptible credit rate design changes.

The Board does not believe the Revenue Allocation Settlement prohibits adopting IPL's proposed changes to interruptible credit rate design. The settlement addresses allocations of the revenue increase among customer classes, and among the zonal rate groups within each class. The settlement adopts IPL's methodology, as modified by the Board's temporary rate order, as it pertains to these allocations. However, the Revenue Allocation Settlement does not by its terms extend to the rate designs within each rate group. This understanding of the Revenue Allocation

Settlement was confirmed by one of the witnesses for a settlement party (Tr. 922-23) and has not been contradicted in briefs by others supporting the settlement.

The Board believes it is important to complete the separation of interruptible credits from base rates. Interruptible cost recovery was removed from base rates in IPL's last rate case, and it is now time to end the relationship between credit levels and base rates. This means that IES interruptible credits will be redesigned and transferred from base rates to a separate rider. IPC interruptible credits will also be put in a separate rider. The level of interruptible credits should be changed in energy efficiency proceedings based on factors such as avoided costs, not changes in base rates.

With this decision, the level of credits will no longer be adjusted automatically when base rates change but will only be adjusted in an energy efficiency proceeding. The increase in the level of interruptible credits allowed in temporary rates, which the Board allowed while it was considering the program rate design change, is to remain within the context of temporary rates. Any revenue losses associated with the temporary credit increases were part of an overall temporary rate increase and are not to be included in IPL's annual energy efficiency cost recovery reconciliation.

Approval of the program redesign means that all of IPL's interruptible credits will now be fixed credits based on a dollar-per-kW incentive. The Board recognizes that this decision has rate impacts because interruptible customers will no longer receive an increase in their credits when base rates increase. Interruptible customers will face the same dollar increases as other LGS customers, but larger percentage increases because of lower net bills. Also, the redesign of credits will increase credit levels for some interruptible customers and decrease it for others.

The Board will not adopt IPL's proposal to increase the credits but will instead adopt IPL's May 13, 2004, proposal to freeze overall credit amounts at pre-case levels. This is an exception to IPL's uniform percentage adjustment rate design method and is not addressed in the Revenue Allocation Settlement because it deals with rate design within a rate group. Additional costs should not be placed on those in the LGS class not participating in the interruptible program. Also, credit levels should be determined by factors examined in an energy efficiency proceeding, not changes in base rate levels. Finally, IPL's credit levels are subject to an ongoing energy efficiency plan docket and the Board will defer any changes to overall credit levels to that docket.

Because of the rate impacts of redesigning and severing credits from base rates at pre-case levels, the Board will order IPL to identify and contact those customers who will experience significant additional rate impacts from these changes so that those customers can consider utilizing IPL's current energy efficiency programs to minimize the adverse impacts. IPL had earlier committed to contacting impacted customers. (Tr. 479.) IPL will be required to file a report within 90 days of the date of this order detailing the customers it has contacted, the information provided, and the programs the customers are utilizing.

VIII. OTHER ISSUES

There are four miscellaneous uncontested issues. First, Article XI of the Revenue Allocation Settlement provided that IES-N zone power factor adjustments will be adopted for the IES-S zone, effective January 1, 2006. No one opposed this portion of the Revenue Allocation Settlement and the signatories to the Revenue Allocation Settlement actively supported the entire settlement, including this provision.

Second, IPL proposed to increase Day-Ahead Hourly Pricing (DAHP) rates by approximately the same percentage as the LGS class as a whole. This would maintain the current rate relationship between DAHP and LGS rates. This change was also not opposed.

Third, IPL asked that the IES pricing zone excess facilities charge be adopted for the IPC zone. No testimony or objection was filed on this issue.

Fourth, Consumer Advocate pointed out that tariff sheets for IPC Large Power and Lighting rate codes 480 and 490 (IPC Tariff Sheets 13.3 and 13.4) contain an outdated reference to a pilot project. IPL agreed that the tariff sheets needed to be amended because the pilot has ended. IPL noted the changes also must be made to similar IES tariff sheets. No one else filed testimony on this issue or addressed it in brief.

The Board will approve all of these changes. The changes are reasonable and were not contested by any party.

IX. FINDINGS OF FACT

Based on a thorough review of the entire record in these proceedings, the Board makes the following findings of fact:

1. It is reasonable to allow a revenue requirement increase as provided for in the July 13, 2004, Revenue Requirement Settlement.

2. It is reasonable to allocate the revenue increase among customer classes as provided for in the August 13, 2004, Revenue Allocation Settlement.

3. It is unreasonable to compound revenue requirement and equalization increases with increases from class cost realignments.

4. It is unreasonable to adopt changes to the A&E method that would exclude interruptible and lighting loads.

5. It is reasonable to balance all factors, including cost, rate impact, and prior increases, when setting rates.

6. It is unreasonable to equalize rates in the different pricing zones immediately or within one year.

7. The method for allocating class rate increases among class rate zones contained in the Revenue Allocation Settlement is reasonable.

8. It is reasonable to use dollar-per-kWh as a target to measure rate equalization until target consolidated rate structures are established.

9. It is reasonable to set the following targets for rate equalization: Residential customers, 5 annual steps or completion by 2010; General Service customers, 5 annual steps or completion by 2010; Large General Service customers,

3 annual steps or completion by 2008; Lighting customers, 3 annual steps or completion by 2008.

10. It is unreasonable to consolidate IPL's rate structure based on the IES-N structure in this proceeding.

11. It is reasonable to address customer reclassification and rate consolidation in a separate proceeding where the range of impacts on individual customers can be examined.

12. It is reasonable to transfer remaining embedded energy costs in IPC base rates to the energy adjustment clause.

13. It is reasonable to increase individual tariff base rate elements by uniform percentages.

14. It is reasonable to redesign and transfer interruptible credits from base rates to a separate rider and freeze the overall credit amounts at pre-case levels, as originally proposed by IPL on May 13, 2004.

15. It is reasonable to adopt IES-N zone power factor adjustments for the IES-S zone, effective January 1, 2006.

16. It is reasonable to increase Day-Ahead Hourly Pricing rates by approximately the same percentage as the LGS class as a whole, as proposed by IPL.

17. It is reasonable that the IES pricing zone excess facilities charge be adopted for the IPC zone.

18. It is reasonable to make tariff changes to eliminate references to a pilot project that has ended, as proposed by Consumer Advocate and IPL.

19. The Revenue Requirement Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

20. The Revenue Allocation Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

X. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code ch. 476 (2003).

XI. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariffs filed by Interstate Light and Power Company on March 15, 2004, identified as TF-04-81 and TF-04-82, and made subject to investigation in this proceeding, are declared to be unjust, unreasonable, and unlawful.

2. On or before the expiration of 15 days from the date of this order, IPL shall file revised tariffs setting schedules of electric rates in compliance with the findings of this order and attached schedules A through I. Schedules A through I are incorporated into this order by reference. The compliance tariffs shall become effective upon approval by the Board.

3. IPL shall file a proposal consolidating class rate structures and redefining customer classes on or before June 30, 2005. IPL's baseline assumptions for the proposal are approved. IPL's proposal shall include detailed information about the ranges of individual customer impacts resulting from the proposal. Notice shall be given to customers prior to the filing consistent with Iowa Code § 476.6 and the Board's rules.

4. IPL shall make, beginning on or before June 30, 2005, annual, revenue-neutral equalization filings based on the billing determinants used in IPL's most recent rate case. The equalization filings shall take reasonably uniform steps toward rate equalization, based upon the targets identified in Finding of Fact No. 10.

5. IPL shall transfer the remaining embedded energy costs in its IPC base tariff energy rates to the energy adjustment clause and include revised EAC tariff sheets in its final compliance tariff.

6. IPL shall redesign and transfer its IES interruptible credits to a separate tariff rider as set forth in this order. IPC interruptible credits shall also be transferred to a separate rider. The overall interruptible credit amounts are frozen at precase levels.

7. IPL shall identify and target those customers who will experience significant impacts from the changes to the interruptible credits program with information regarding each customer's individual impacts and IPL's energy efficiency programs. IPL shall file a report within 90 days of the date of this order containing at least the following information: who was contacted, how they were contacted, what

information was provided, what follow-up was performed, and the results of the contacts.

8. The Revenue Requirement and Revenue Allocation Settlements discussed in this order are approved.

9. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 14th day of January, 2005.

Interstate Power and Light
Revenue Requirement
Test Year Ended December 31, 2003

Line No.	Description (A)			
1	Rate Base	1,621,280,393	353,582,300	
2	Rate of Return	8.701%	9.434%	
3	Return On Rate Base	141,067,020	33,355,819	174,422,839
4	2001 Net Operating Income			111,766,408
5	Income (Excess) Deficiency			62,656,431
6	Tax Effect			44,576,892
7	Revenue (Excess) Deficiency			107,237,273
8	Operating Revenue			928,537,045
9	Percent Increase/Decrease			11.55%
10	REVENUE REQUIREMENT			1,035,774,318

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
INCOME STATEMENT - INTERIM RATES
YEAR ENDED DECEMBER 31, 2003

Line No.	Description	(a) Actual Test Year Results	(b) Adjustments	(c) Adjusted Test Year Results	(d) Additional Revenues Required to Yield 8.832%	(e) Total Revenues Required to Yield 8.832%
					11.5%	
1	Operating revenues	921,408,303	7,128,742	$ 928,537,045	$ 107,237,273	$ 1,035,774,318
	Operating expenses:					
2	Operation expenses	494,517,020	(13,290,264)	481,226,756		481,226,756
3	Maintenance expenses	61,511,998	8,351,696	69,863,694		69,863,694
4	Depreciation and amortization	136,596,853	27,160,065	163,756,918		163,756,918
5	Property taxes	34,021,368	7,130,590	41,151,958		41,151,958
6	Miscellaneous taxes	7,390,474	359,623	7,750,097		7,750,097
	Income taxes -					
7	Current federal	30,296,361	(21,443,744)	8,852,617	33,736,846	42,589,463
8	Current state	12,874,774	982,892	13,857,666	10,841,688	24,699,354
9	Deferred	29,455,576	4,122,921	33,578,497		33,578,497
10	Investment tax credits	(3,267,567)	0	(3,267,567)		(3,267,567)
11	Total operating expenses	803,396,857	13,373,780	816,770,637	44,578,534	861,349,171
12	Operating income	118,011,446	(6,245,038)	$ 111,766,408	$ 62,656,431	$ 174,425,147
	Rate Base:					
13	Emery Generating Station	0	353,582,300	353,582,300		353,582,300
14	All Other	1,463,330,333	157,950,060	1,621,280,393		1,621,280,393
15	Total Rate base	1,463,330,333	511,532,360	$ 1,974,862,693		$ 1,974,862,693
16	Cost of Capital:	8.065%		5.659%		
17	Emery Generating Station					9.434%
18	All Other					8.701%

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Line No.	Brief Description of Adjustment:	Emery Generating Station	Alliant Energy Tower Capital Lease Treated as if an Operating Lease	Six Sigma Savings	iDEN IPL Project Expenses	Delivery Replacement Program Expenses	Combustion Initiative Expenses	Eliminate Red Cedar Expenses	Adjust Depreciation for Major Adds
1	Operating Revenues							$27,057	
	Operating Expenses:								
2	Operation Expense	(8,194,224)	1,133,104	(989,233)	305,656		177,538	0	
3	Maintenance Expense	6,197,875		(281,132)		(26,289)		0	
4	Depreciation and Amortization	15,024,431	(256,798)		392,875	1,484,101	1,840,324	0	3,036,215
5	Property Taxes	1,667,920						0	
6	Miscellaneous Taxes	72,918							
	Income Taxes-								
7	Current Federal at 31.46%	(8,343,673)	(275,686)	399,657	(219,758)	(458,628)	(634,819)	8,512	(955,193)
8	Current State at 10.11%	(2,681,326)	(88,595)	128,434	(70,621)	(147,385)	(204,006)	2,735	(306,961)
9	Deferred	4,113,413							
10	Investment Tax Credit								
11	Total Operating Expense	7,857,334	512,025	(742,274)	408,152	851,799	1,179,037	11,247	1,774,061
12	Operating Income	(7,857,334)	(512,025)	742,274	(408,152)	(851,799)	(1,179,037)	15,810	(1,774,061)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
Line No.	Brief Description of Adjustment:	Adjust Revenues and Expenses for Minor Adds	Project Eliminations	Major Changes to Insurance Expense	Other Post-Employment Benefits	Pension Expense	Employee Medical and Dental Premiums	Salary and Wages	Injuries & Damages Expense to a 5-Year Average	Interest on Customer Deposits
1	Operating Revenues	3,097,351								
	Operating Expenses:									
2	Operation Expense	733,038		455,107	(304,164)	(807,225)	605,294	2,319,632	(528,810)	123,251
3	Maintenance Expense							688,522		
4	Depreciation and Amortization	2,101,526	(83,375)							
5	Property Taxes									
6	Miscellaneous Taxes							225,378		
	Income Taxes-									
7	Current Federal at 31.46%	82,673	26,230	(143,177)	95,690	253,953	(190,425)	(1,017,269)	166,364	(38,775)
8	Current State at 10.11%	26,568	8,429	(46,011)	30,751	81,610	(61,195)	(326,910)	53,463	(12,461)
9	Deferred									
10	Investment Tax Credit									
11	Total Operating Expense	2,943,805	(48,716)	265,919	(177,723)	(471,662)	353,674	1,889,353	(308,983)	72,015
12	Operating Income	153,546	48,716	(265,919)	177,723	471,662	(353,674)	(1,889,353)	308,983	(72,015)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(r) IUB / OCA Remainder Assessment	(s) Normalize DAEC Refueling Outage Expenses	(t) Rate Case Expenses	(u) Levelize Transmission & Distribution Maintenance Expenses	(v) Depreciation Study Update	(w) Correct Meter Reading Error	(x) Capacity Sales Contracts	(y) Firm Wheeling Expense
1	Operating Revenues						$ 380,952	$ (595,244)	
	Operating Expenses:								
2	Operation Expense	256,722	990,536	225,799					2,155,418
3	Maintenance Expense		2,295,301		(522,581)				
4	Depreciation and Amortization					1,916,259			
5	Property Taxes								
6	Miscellaneous Taxes								
	Income Taxes-								
7	Current Federal at 31.46%	(80,765)	(1,033,724)	(71,036)	164,404	(602,855)	119,847	(187,264)	(678,095)
8	Current State at 10.11%	(25,955)	(332,198)	(22,828)	52,833	(193,734)	38,514	(60,179)	(217,913)
9	Deferred								
10	Investment Tax Credit								
11	Total Operating Expense	150,002	1,919,915	131,935	(305,344)	1,119,670	158,361	(247,443)	1,259,410
12	Operating Income	(150,002)	(1,919,915)	(131,935)	305,344	(1,119,670)	222,591	(347,801)	(1,259,410)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(z)	(aa)	(ab)	(ac)	(ad)	(ae)	(af)	(ag)
Line No.	Brief Description of Adjustment:	Use Tax Audit Amortization	Amortize over 3 years the revenue lag for rate base differences	Amortize Regulatory Mandated Study cost over 4 year period	Uncollectible Accounts Adjusted to a 5-year average	Eliminate Out-of-Period Unbilled Revenues	Neal Unit 4 Purchased Power Capacity Reductions	Recover TransLink Start-Up Costs over 3 years	Eliminate Advertising Expenses
1	Operating Revenues					$2,655,038			
	Operating Expenses:								
2	Operation Expense	29,475	361,357		359,890		(1,778,790)	386,821	(36,930)
3	Maintenance Expense								
4	Depreciation and Amortization			645,353					
5	Property Taxes								
6	Miscellaneous Taxes	61,327							
	Income Taxes-								
7	Current Federal at 31.46%	(28,566)	(113,683)	(203,028)	(113,221)	835,275	559,607	(121,694)	11,618
8	Current State at 10.11%	(9,180)	(36,533)	(65,245)	(36,385)	268,424	179,836	(39,108)	3,734
9	Deferred								
10	Investment Tax Credit								
11	Total Operating Expense	53,056	211,141	377,080	210,284	1,103,699	(1,039,347)	226,019	(21,578)
12	Operating Income	(53,056)	(211,141)	(377,080)	(210,284)	1,551,339	1,039,347	(226,019)	21,578

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(ah) MICP/EICP Awards	(ai) Decommissioning Expense -IUB Method	(aj) Eliminate Out-of-Period Income Taxes	(ak) Non-Property Deferred Income Taxes	(al) Property Tax Expense	(am) Reflect Impact of Final Rates from RPU-02-3	(an) Adjustment to EAC Revenues due to Refund	(ao) Significant Load Changes
1	Operating Revenues						$4,165,801	$ 42,875	$ (2,206,613)
	Operating Expenses:								
2	Operation Expense	(3,212,611)							(995,551)
3	Maintenance Expense								
4	Depreciation and Amortization		2,403,000						
5	Property Taxes					5,462,670			
6	Miscellaneous Taxes								
	Income Taxes-								
7	Current Federal at 31.46%	1,010,687	(755,984)	(11,794,685)	6,150,419	(1,718,556)	1,310,561	13,488	(381,000)
8	Current State at 10.11%	324,795	(242,943)	4,083,715	1,976,503	(552,276)	421,162	4,335	(122,438)
9	Deferred			7,980,030	(7,970,522)				
10	Investment Tax Credit								
11	Total Operating Expense	(1,877,129)	1,404,073	269,060	156,400	3,191,838	1,731,723	17,823	(1,498,989)
12	Operating Income	1,877,129	(1,404,073)	(269,060)	(156,400)	(3,191,838)	2,434,078	25,052	(707,624)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(ap) Second Nature Transaction	(aq) Expiration of Economic Development Contracts	(ar) Lost AEP Margins Through the EAC	(as) Impact of Change to Interruptible Discounts	(at) Impact on EAC aand EECR Reconciliations	(au) Resale Sales	(av) Sale of Hydros
1	Operating Revenues	$ (314,671)	$369,277	$ (153,349)	$ 55,378	($395,110)		
	Operating Expenses:							
2	Operation Expense	(368,986)						(200,000)
3	Maintenance Expense							
4	Depreciation and Amortization							(305,924)
5	Property Taxes							
6	Miscellaneous Taxes							
	Income Taxes-							
7	Current Federal at 31.46%	17,087	116,175	(48,244)	17,422	(124,302)	0	159,164
8	Current State at 10.11%	5,491	37,334	(15,504)	5,599	(39,946)	0	51,149
9	Deferred							
10	Investment Tax Credit							
11	Total Operating Expense	(346,408)	153,509	(63,748)	23,021	(164,248)	0	(295,611)
12	Operating Income	31,737	215,768	(89,601)	32,357	(230,862)	0	295,611

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE INCOME STATEMENT - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(aw) Depreciation Adjustment for Plants Nearing End of Remaining Life	(ax) Non-Recurring AEC Officer Compensation	(ay) Miscellaneous	(az) Interest Synchronization	(ba) Total
1	Operating Revenues					7,128,742
	Operating Expenses:					
2	Operation Expense		(622,638)	(5,869,739)		(13,290,264)
3	Maintenance Expense					8,351,696
4	Depreciation and Amortization	(1,037,922)				27,160,065
5	Property Taxes					7,130,590
6	Miscellaneous Taxes					359,623
	Income Taxes-					
7	Current Federal at 31.46%	326,530	195,882	1,846,620	(4,997,504)	(21,443,744)
8	Current State at 10.11%	104,934	62,949	593,431	(1,606,000)	982,892
9	Deferred					4,122,921
10	Investment Tax Credit					0
11	Total Operating Expense	(606,458)	(363,807)	(3,429,688)	(6,603,504)	13,373,780
12	Operating Income	606,458	363,807	3,429,688	6,603,504	(6,245,038)

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
THIRTEEN MONTH AVERAGE
RATE BASE - INTERIM RATES
YEAR ENDED DECEMBER 31, 2003

Line No.	Description	(b) Thirteen Month Average		(c) Adjustments		(d) Adjusted Rate Base
	Investment in plant:					
1	Utility plant in service	3,419,377,021	$	554,641,603	$	3,974,018,624
2	Accumulated provision for depreciation and amortization	(1,764,733,496)		(9,927,815)		(1,774,661,311)
3	Accumulated deferred income taxes	(216,577,478)		(2,056,707)		(218,634,185)
4	Customer advances for construction	(1,926,719)		-		(1,926,719)
5	Customer deposits	(1,507,789)		-		(1,507,789)
6	Unclaimed property	(5,727)		-		(5,727)
7	Accumulated provision for uncollectibles	(749,735)		(179,945)		(929,680)
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages	(2,466,295)		264,405		(2,201,890)
9	Accrued vacation	(3,764,767)		-		(3,764,767)
10	Accrued pension plan obligations	(3,879,784)		(22,574,781)		(26,454,565)
11	Total net investment in plant	1,423,765,231		520,166,760		1,943,931,991
	Working capital:					
12	Materials and supplies inventory	26,771,298		(49,195)		26,722,103
13	Prepayments	3,295,471		0		3,295,471
14	Fuel inventory	30,861,956		376,283		31,238,239
15	Cash working capital requirements	(21,363,623)		(8,961,488)		(30,325,111)
16	Total net working capital	39,565,102		(8,634,401)		30,930,702
17	Total rate base	1,463,330,333	$	511,532,360	$	1,974,862,693
	Rate Base:					
18	Emery Generating Station	0	$	353,582,300	$	353,582,300
19	All Other	1,463,330,333		157,950,060		1,621,280,393
20		1,463,330,333	$	511,532,360	$	1,974,862,693

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE RATE BASE - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
Line No.	Brief Description of Adjustment:	Emery Generating Station	Eliminate Alliant Energy Tower Capital Lease	Six Sigma Savings	iDEN IPL Project	Delivery Replacement Program	Combustion Initiatives	Red Cedar Elimination
	Investment in plant:							
1	Utility plant in service	$364,764,997	($12,840,098)		$5,890,177	$46,979,984	$18,403,242	$0
2	Accumulated provision for depreciation and amortization	(7,512,216)	534,992		(196,438)	(742,051)	(920,162)	0
3	Accumulated deferred income taxes	(2,056,707)						0
4	Customer advances for construction							
5	Customer deposits							
6	Unclaimed property							
7	Accumulated provision for uncollectibles							
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages							
9	Accrued vacation							
10	Accrued pension plan obligations							
11	Total net investment in plant	355,196,074	(12,305,106)	0	5,693,739	46,237,933	17,483,080	0
	Working capital:							
12	Materials and supplies inventory			(49,195)				
13	Prepayments							
14	Fuel inventory	376,283						
15	Cash working capital requirements	(1,990,057)						
16	Total net working capital	(1,613,775)	0	(49,195)	0	0	0	0
17	**Total rate base**	353,582,300	(12,305,106)	(49,195)	5,693,739	46,237,933	17,483,080	0

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE RATE BASE - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(h) Uncollectible Accounts	(i) Injuries & Damages	(j) Adjust for Major Adds	(k) Adjust for Minor Adds	(l) Project Eliminations	Sale of Hydros	OPEB Liability (Diff. Between Accrual and Cash)	Pension Liability (Diff. Between Accrual and Cash)
	Investment in plant:								
1	Utility plant in service			$76,126,192	$59,394,710	(1,738,601)	(2,339,000)		
2	Accumulated provision for depreciation and amortization			(1,644,169)	(1,301,458)	41,687	1,812,000		
3	Accumulated deferred income taxes								
4	Customer advances for construction								
5	Customer deposits								
6	Unclaimed property								
7	Accumulated provision for uncollectibles	(179,945)							
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages		264,405						
9	Accrued vacation								
10	Accrued pension plan obligations							(8,926,228)	(13,648,553)
11	Total net investment in plant	(179,945)	264,405	74,482,023	58,093,252	(1,696,914)	(527,000)	(8,926,228)	(13,648,553)
	Working capital:								
12	Materials and supplies inventory								
13	Prepayments								
14	Fuel inventory								
15	Cash working capital requirements								
16	Total net working capital	0	0	0	0	0	0	0	0
17	**Total rate base**	(179,945)	264,405	74,482,023	58,093,252	(1,696,914)	(527,000)	(8,926,228)	(13,648,553)

INTERSTATE POWER AND LIGHT COMPANY

IOWA ELECTRIC UTILITY

SUMMARY OF ADJUSTMENTS TO THE RATE BASE - INTERIM RATES

YEAR ENDED DECEMBER 31, 2003

Line No.	Brief Description of Adjustment:	(p) Cash Working Capital	(q) Total
	Investment in plant:		
1	Utility plant in service		$554,641,603
2	Accumulated provision for depreciation and amortization		(9,927,815)
3	Accumulated deferred income taxes		(2,056,707)
4	Customer advances for construction		
5	Customer deposits		0
6	Unclaimed property		0
7	Accumulated provision for uncollectibles		(179,945)
8	Accrued liability for property insurance, workers compensation insurance and injuries and damages		264,405
9	Accrued vacation		0
10	Accrued pension plan obligations		(22,574,781)
11	Total net investment in plant	0	520,166,760
	Working capital:		
12	Materials and supplies inventory		(49,195)
13	Prepayments		0
14	Fuel inventory		376,283
15	Cash working capital requirements	(6,971,431)	(8,961,488)
16	Total net working capital	(6,971,431)	(8,634,401)
17	**Total rate base**	(6,971,431)	511,532,360

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
PRO FORMA ADJUSTMENT TO REFLECT INTEREST SYNCHRONIZATION
INTERIM RATES
YEAR ENDED DECEMBER 31, 2003

Line No.			Pro forma Adjustment
1	Rate base	$1,974,862,693	
2	Weight average cost of long-term debt	3.021%	
3	Interest on rate base	59,669,133	
4	Booked long-term debt interest	43,783,869	
5	Difference	15,885,264	
6	Federal income tax adjustment		$ (4,997,504)
7	State income tax adjustment		$ (1,606,000)

Schedule G

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
DETERMINATION OF CASH WORKING CAPITAL REQUIREMENTS - INTERIM RATES
YEAR ENDED DECEMBER 31, 2003

		Days of Lag
	Estimated revenue lag:	
1	Metering period	15.2
2	Processing bills	2.3
3	Collection period	24.9
4	Total	42.4

						Pro Forma Adjustment		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Type of Expense	Amount	Expense Per Day (1)/365	Days Cash Required	Cash Requirement (2) x (3)	Pro forma Amount	Expense Per Day (5)/365	Cash Req. for Adjust. (3) x (6)
	Labor:							
5	Bi-weekly	$ 78,531,327	$ 215,154	29.4	$ 6,325,528			
6	Total Labor	78,531,327	215,154	29.4	6,325,528	$ 3,008,154	$ 8,242	$ 242,315
	Fuel Burned:							
7	Coal, including freight	112,538,199	308,324	18.2	5,611,497			
8	Oil	4,581,120	12,551	14.8	185,755			
9	Natural Gas	15,956,255	43,716	5.4	236,066			
10	Furfural Residue	(127,788)	(350)	(6.8)	2,380			
11	Methane Gas	259,947	712	(1.1)	(783)			
12	Nuclear Fuel	15,071,223	41,291	(33.7)	(1,391,507)			
	Other (for pro forma adjustment only)					(631,499)	(1,730)	(19,722)
13	Total Fuel Burned	148,278,956	406,244	11.4	4,643,408	(631,499)	(1,730)	(19,722)
14	Electricity purchased	152,043,211	416,557					
15	Off-system sales	(34,493,907)	(94,504)					
16	Electricity Purchased, net	117,549,304	322,053	15.2	4,895,206	(1,778,790)	$ (4,873)	$ (74,070)
	Other operation and maintenance							
17	Total operation and maintenance	541,246,623	1,482,867					
18	Less: Labor	78,531,327	215,154					
19	Fuel Burned	148,278,956	406,244					
20	Electricity purchased before Off-system sales	152,043,211	416,557					
21	Total Other Operation and Maintenance	162,393,129	444,913	(4.0)	(1,779,652)	737,147	2,020	(8,080)
	Other:							
22	Property taxes	34,021,368	93,209	(321.2)	(29,938,731)	5,462,670	14,966	(4,807,079)
23	Federal income taxes	30,296,361	83,004	4.4	365,218	19,220,122	52,658	231,695
24	State income taxes	12,874,774	35,273	(10.6)	(373,894)	14,050,651	38,495	(408,047)
25	Interest on long-term debt	43,783,869	119,956	(48.9)	(5,865,848)	15,885,263	43,521	(2,128,177)
26	Preferred dividends	10,968,431	30,050	(3.3)	(99,165)			
27	FICA taxes	7,250,794	19,865	26.5	526,423	286,705	785	20,803
28	Federal unemployment taxes	61,341	168	97.1	16,313			
29	State unemployment taxes	78,339	215	73.7	15,846			
30	External decommissioning fund	10,753,349	29,461	(3.2)	(94,275)	2,403,000	6,584	(21,069)
31	Total Other	150,088,626	411,201	(86.2)	(35,448,113)	57,308,411	157,009	(7,111,874)
32	Total	$ 656,841,342	$ 1,799,565	(11.9)	$ (21,363,623)	$ 58,643,423	$ 160,668	$ (6,971,431)

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
THIRTEEN MONTH AVERAGE COST OF CAPITAL - ***EMERY GENERATING STATION***
YEAR ENDED DECEMBER 31, 2003

	Interstate Light and Power Company			
		13-Mo. Ave DL COC		
	Amount	Ratio	Cost	WACC
L-T debt	952,901,038	44.769%	6.749%	3.021%
Pref Stk	156,264,054	7.341%	7.564%	0.555%
Com Eq	1,019,338,628	47.890%	12.230%	5.857%
	2,128,503,720	100.000%		9.434%

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
THIRTEEN MONTH AVERAGE COST OF CAPITAL - *OTHER THAN EMERY GENERATING STATION*
YEAR ENDED DECEMBER 31, 2003

Interstate Light and Power Company
13-Mo. Ave DL COC

	Amount	Ratio	Cost	WACC
L-T debt	952,901,038	44.769%	6.749%	3.021%
Pref Stk	156,264,054	7.341%	7.564%	0.555%
Com Eq	1,019,338,628	47.890%	10.700%	5.124%
	2,128,503,720	100.000%		8.701%

Interstate Power and Light
Cumulative Changes in Average Rate Differentials
Docket Nos. RPU-02-3 and RPU-02-8, and RPU-04-1

	Average $/kWh Rate Differentials Above (or Below) Class Averages For Selected Zonal Rate Groups		Estimated Cumulative Percent Reductions in Rate Differentials
	Before RPU-02-3	After RPU-04-1	
Residential			
IES-N	$ 0.0146	$ 0.0112	-23.0%
IES-S	$ (0.0254)	$ (0.0190)	-25.5%
General Service			
IES-N	$ 0.0088	$ 0.0040	-53.9%
IES-S	$ (0.0162)	$ (0.0095)	-41.5%
IPC	$ (0.0166)	$ (0.0099)	-40.6%
Large Gen. Serv.			
IES-N	$ 0.0037	$ 0.0018	-50.5%
IES-S	$ (0.0068)	$ (0.0034)	-49.5%
Lighting			
IPC	$ 0.0084	$ 0.0051	-39.0%
IES-N	$ 0.0065	$ 0.0058	-10.8%
IES-S	$ (0.0208)	$ (0.0163)	-21.7%